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October 23, 2002

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 Twelfth Street, SW  
Washington, DC 20554

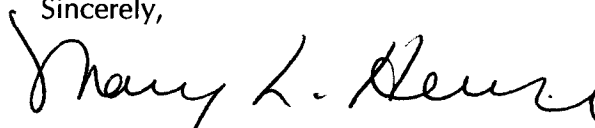
**RE: CC Dkt. 00-199, Comprehensive Review of Accounting Requirements**  
**WC Dkt. 02-269, Federal-State Joint Conference on Accounting**

Dear Ms. Dortch,

On October 22, BellSouth sent the attached letter regarding accounting reform and the Federal State Joint Conference on Accounting to FCC Chairman Powell. Please incorporate this filing into the record in the above referenced proceedings.

This notice is being filed pursuant to Sec. 1.1206(b)(2) of the Commission's rules. If you have any questions concerning this filing, please do not hesitate to contact me.

Sincerely,



Mary L. Henze

cc: M. Powell  
K. Abernathy  
M. Copps  
K. Martin  
C. Libertelli  
M. Brill  
J. Goldstein  
S. Feder  
W. Maher  
J. Jackson  
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October 22, 2002

Chairman Michael Powell  
Federal Communications Commission  
445 Twelfth Street, SW  
Washington, DC 20554

RE: CC Dkt. 00-199, Comprehensive Review of Accounting Requirements  
WC Dkt. 02-269, Federal-State Joint Conference on Accounting

Dear Chairman Powell,

I'm concerned by what seems to be efforts to link the recent financial accounting scandals to the Federal Communications Commission's measured and prudent reform of regulatory accounting rules. Some might consider the recent formation of a Federal-State Joint Conference on Accounting issues to be in response to these efforts. Targeting the FCC's accounting rules, however, will do nothing to solve the problems in the headlines or punish the companies at fault. If the Joint Conference fosters reasoned discourse among state and Federal regulators that promotes continued reform, then it will be a valuable body. However, if it is used as an avenue to increase accounting regulation on ILECs, then it will violate the Act's explicit deregulatory goals.

As you are aware, FCC regulatory and SEC/GAAP financial accounting systems were designed to achieve entirely different goals, the first to protect ratepayers and the second to protect shareholders. And while all public companies are subject to the SEC /GAAP accounting rules, only a small number of large incumbent local exchange carriers (ILECs) are *also* subject to the FCC's regulatory accounting rules. Revelations of abuse of SEC/GAAP accounting rules are very disturbing but they have no bearing whatsoever on the need for, or adequacy of, FCC regulatory accounting rules.

The FCC's effort to streamline accounting rules is important and fully consistent with the Telecommunications Act's goal of reducing unnecessary regulation and expense. Section 11 of the Act requires the Commission to

undertake regular biennial reviews of its regulations "to determine whether any such regulation is no longer necessary in the public interest..." The original purpose of the regulatory accounting rules was to provide information critical to the rate-of-return environment in which they were created. But the environment today is dramatically different; not only is the market highly competitive but for Federal purposes and in the majority of states, large ILECs are now subject to price cap regulation. Under this regulatory regime, companies are left to manage their costs and the regulators focus on prices to the consumer. Therefore the need to micromanage carrier costs with detailed accounting rules has all but disappeared.

Far from rushing to dismantle its regulatory accounting rules, your agency has taken a very cautious approach. After extensive debate and public comment, which started soon after the Act was passed, the Commission has made a limited number of substantive changes in the rules and modified some ARMIS reporting requirements. To a large degree, the ILECs remain under the same regulatory accounting rules and reporting requirements that were in effect in 1996 while their IXC and CLEC competitors bear no such burden. Phase 3 of your streamlining proceeding was a much needed step towards parity and it should not be allowed to languish.

As you are well aware, the telecommunications industry was in a difficult period before the financial accounting scandals raised concerns to a fever pitch. Lashing out at FCC accounting rules as either the culprit or the cure may be an understandable reaction from those seeking a scapegoat, but it is also seriously misguided and potentially damaging. ILECs are no more able to bear additional burdens than any other competitor in this challenging marketplace. Our ability to compete in markets for advanced services continues to be constrained by asymmetrical regulation. The local service market is under increased competition from both new entrants and new technologies. ILECs already bear the expense of complying with dual accounting requirements – SEC and FCC – while their competitors answer only to the SEC.

I urge you to focus the Joint Conference on finding the best route to substantive and significant accounting reforms as contemplated in Phase 3. The remaining Phase 2 changes should be allowed to take effect as scheduled and the items under reconsideration should be acted on expeditiously. We all share a desire to prevent the types of accounting abuses that have been revealed. But the few ILECs now subject to FCC accounting rules are not the problem, and retaining or strengthening the FCC's accounting rules with which those ILECs alone must comply is not the solution. You opened the door to groundbreaking reform in Phase 3; please do not let the frenzy of the moment or the Joint Conference process close it again.

Sincerely,

